Business

Do not revive Sir Mervyn King says: let failing banks fail B4-5

Not singing any more Millwall returns to private ownership B3

Surprise concord bolsters markets

- Traders back Greek premier
- ECB cuts rates as G20 begins

By Louise Armitstead

GLOBAL stock markets rose amid signs the eurozone had been pulled back from the brink of disintegration by an eleventh-hour concord in Greece.

Despite chaotic scenes in Athens that stole attention from the G20 summit in Cannes, traders backed prime minister George Papandreou's efforts to unite Greece's political factions behind the €130bn (£112bn) Brussels debt deal.

The Greek premier dramatically scrapped a referendum he said he had called because of political divisions in Athens over the "difficult" package. Yesterday, he said: "We had a dilemma: consensus or a referendum. Failure to back the package would mean the beginning of our departure from the euro. But if we have consensus, then we don't need a referendum."

Mr Papandreou is due to face a vote of confidence in the Greek parliament tonight.

After a roller-coaster few days on European stock markets, the pan-European Stoxx 600 index rose 2.1pc, the French CAC gained 2.7pc and in Germany the DAX rose 2.8pc. In London, the FTSE 100 climbed 1.1pc.

The markets were also boosted by the European Central Bank's unexpected decision to cut interest rates from 1.5pc to 1.25pc.

Economists and analysts had expected the central bank to hold rates, having raised them twice this year. However, Mario Draghi, overseeing his first interest rate meeting as head of the ECB, said the decision to cut was made in the face of "intensified downside risks" and "high uncertainty".

Marie Diron, senior economic adviser to the Ernst & Young Eurozone Forecast (EEF), said: "The ECB surprised by cutting interest rates… developments in the past few weeks have overtaken the ECB's expectations from early November so that delaying a rate cut was no longer an option."

However, Mr Draghi said he had no plans to expand the ECB's bond-buying programme to support countries such as Italy and Spain. He said: "Our securities market programme has three characteristics: it is temporary; it is limited; it is justified in restoring the functioning of monetary transmission channels."

The debt crisis in Italy dominated the G20 talks after Silvio Berlusconi failed to secure solid political approval from Rome for a vital package of austerity measures. The yield on Italian bonds rose to fresh highs of 6.4pc, while the spread over German Bunds hit 462 basis points before dropping back. Analysts have warned that at such levels Italy will soon require a bail-out to service its €1.9 trillion public debt – a problem Europe is ill-equipped to tackle.

Stock markets had plunged initially in the wake of Mr Papandreou's announcement that Greece would hold a referendum on December 4. The announcement of the date, made after midnight in Cannes, followed a highly-charged meeting with Angela Merkel and Nicolas Sarkozy in which the Greek prime minister had been told to "abide by the rules" of the Brussels bail-out or "leave the eurozone".

The European leaders suspended the payment of an €8bn international aid package when Mr Papandreou said he would stick to his guns and call a referendum. But yesterday his decision appeared to backfire when Greek ministers said that he would have to resign as a result.

Gold rose 1.5pc as investors sought safe havens. One metal trader said: "It feels like we are back to square one, with questions about Greece backing out of the rescue plan and its possible ejection from the EU."

Market confidence returned when the Greek opposition crumbled. Politicians said they would back the Brussels debt restructuring and austerity measures rather than risk a "no" vote to EU membership.

Comment: B2, Analysis: B4&5

The Telegraph
Britain ready to boost IMF funding, says Cameron
telegraph.co.uk/finance

DYLAN MARTINEZ/EPA

Yes we Cannes: Barack Obama and David Cameron meeting yesterday for the G20 summit talks

Euro leaders face bail-out plan reversal

By Philip Aldrick in Cannes

EUROPE'S leaders face an embarrassing reversal over their plans for the eurozone bail-out fund after attempts to drum up backing from China and other wealthy states backfired.

Officials had hoped to use the European Financial Stability Facility (EFSF) to raise money from sovereign wealth funds in China and the Middle East to buy up Italian and Spanish debt.

Under the plan, the remaining €250bn (£215bn) in the EFSF would be used as "first loss" protection for €1 trillion of private sector funding. However, the Chinese pushed back against the plan, instead preferring to provide support through the International Monetary Fund (IMF). The disagreement has forced eurozone leaders back to their original proposal of using the EFSF to provide insurance directly on newly-issued government debt.

Although the EFSF's potential firepower would be unchanged at €1 trillion, European officials fear the insurance structure might stigmatise countries using it and distort the market in bonds that are not covered.

Policymakers are still trying to agree a deal that would see a smaller special purpose vehicle (SPV) set up to attract private sector funding which would be used alongside the insurance plan. The eurogroup hopes to unveil a proposal next week.

The climb-down a little over a week after raising the prospect of creating an SPV will further hit the credibility of the European bail-out plan. The EFSF is the centrepiece of Europe's efforts to contain the crisis to Greece by demonstrating the single currency bloc has sufficient funds to buy Spain and Italy time to reform.

Adding to its woes, on Wednesday the EFSF pulled a €3bn bond sale due to market turbulence – a move ridiculed by analysts. Gary Jenkins, head of fixed income at Evolution, said: "I thought an AAA-rated government-guaranteed vehicle was supposed to benefit from volatile market conditions as there was a natural flight to quality. The frightening thing is that the vehicle that is supposed to borrow on behalf of countries that can't borrow, can't borrow."

China, which has about $3.2 trillion of foreign exchange reserves, is thought to have given the EFSF short shrift because it would rank beneath the IMF as a creditor in the event of a default. By providing extra funding through the IMF, China would enjoy better protection as well as strengthening its hand among its international peers rather than just those in Europe. Beijing is expected to extract concessions as part of any increased bail-out, either by buying foreign assets or through trade deals.

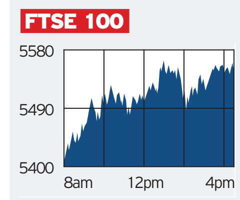
News of the reversal came at the G20 meeting in Cannes. Leaders are expected today to pledge to take action to return the world to sustainable growth. According to a draft communiqué, G20 nations will commit to co-ordinate actions and policies so countries with large budget deficits, such as the UK, cut their debts and those with trade surpluses, such as China, work to boost consumer demand.

The Telegraph
G20 summit leaders: in their own words
telegraph.co.uk/finance

60 SECOND BRIEFING

MARKETS

FTSE 100



5545.64
+61.54 +1.12pc

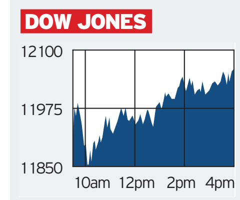
2011 High		6091.33
2011 Low		4944.44
Yield	3.43pc	-0.04
P/E ratio	10.01	+0.11

Markets flip-flopped amid uncertainty over the Greek referendum but finished up after plans for a plebiscite were finally scrapped.
MARKET REPORT B7 >>

BIGGEST RISER
ITV
65.1p
+3.65p (6pc)

BIGGEST FALLER
ICAP
368.4p
-5.9p (2pc)

DOW JONES



12044.47
+208.43 +1.76pc

US stocks moved higher, boosted by news from Greece and the surprise decision of the European Central Bank to cut interest rates.

OTHER MARKETS

FTSE 250	10406.67	+155.02
FTSE All-share	2858.42	+32.11
Yield	3.35	-0.04
FTSE Eurotop 100	2064.97	+35.63
Nikkei	8640.42	closed
DJ Eurostox50	2347.94	+56.05
S&P 500	1261.15	+23.25
Nasdaq	2697.97	+57.99

CURRENCIES

	£ €	£ $
RATE	1.1612	1.5958
CHANGE	+0.39c	-0.13c

FULL LISTING B5 >>

COMMODITIES

GOLD
$1759 (£1087)
+17.00 +0.98pc

BRENT CRUDE
$110.83 Dec
+1.49 +1.36pc

Hedge fund data is branded 'unreliable'

By Helia Ebrahimi

AN OXFORD University study has found that 40pc of hedge funds mislead investors by giving incorrect information about their monthly investment performance.

The research, in conjunction with Duke University, claims that 7,000 individual hedge funds managed to misinform their clients about performance results between 2007 and 2011.

The results showed that out of the 18,000 funds tracked, those that had changed historic data after the fact performed considerably worse than peers with an accurate reporting track record.

The study says that "unreliable disclosures" should work to warn investors about future performance.

US regulator the Securities and Exchange Commission (SEC) recently adopted new rules requiring "large hedge funds" to report quarterly information to a recently established Financial Stability Oversight Council set up under the Dodd-Frank legislation.

Dr Tarun Ramadorai, from the Oxford-Man Institute of Quantitative Finance, said the research had highlighted the "unreliability of voluntary disclosures" made by hedge funds.

Dr Ramadorai said investors and regulators would be better served if hedge funds had "mandatory, audited disclosures of past performance" which would allow them to "accurately assess the real risks and returns of hedge fund investments".

Ryanair ready to accept drachmas

By Alistair Osborne

RYANAIR chief executive Michael O'Leary knows a thing or two about publicity stunts. But even he might have not picked yesterday to launch new services to Greece.

The low-fare carrier will today start selling tickets for flights, starting next spring, from Leeds Bradford to the islands of Kos, Corfu and Crete.

Asked if passengers could book in drachmas, given the risk that Greece's days as a eurozone member are numbered, a toga-clad Mr O'Leary, *pictured*, shot back: "We're not proud. We take any currency, including mountain goats."

He said the new routes would "take advantage of any big Greek devaluation", noting that if that happened "there's going to be a tourist boom. For Greece, the tourist business will become more important than ever".

Ryanair plans to base a third aircraft at Leeds Bradford for next summer, with the Greek routes and three other new ones bringing the total flown from the airport to 26.

"Greeks wishing to flee will fly into Leeds to buy properties," Mr O'Leary claimed. "They all speak the same language in the Yorkshire dales." He added: "People keep asking me what's the ideal passenger? One with a pulse and a credit card."

GSK to pay £1.9bn over drug inquiries

By Rachel Cooper

GLAXOSMITHKLINE is set to pay one of the pharmaceutical industry's largest ever settlements to resolve several long-standing disputes with the US government.

As Britain's biggest drug maker tries to draw a line under protracted inquiries, it has agreed in principle to conclude its most significant ongoing government investigations, at a cost of $3bn (£1.9bn). Negotiations are ongoing and the final terms will be decided next year. The cost will be covered by existing provisions, with Glaxo having set aside £2.2bn in the fourth quarter of last year.

Glaxo's decision to bundle together several disputes over the way it marketed and developed drugs, some of which date back to the 1990s, means that its settlement is poised to be one of the industry's largest. Two years ago, America's Pfizer paid $2.3bn over the marketing of its Bextra painkiller and other drugs. Also in 2009, Eli Lilly paid $1.4bn over sales of its Zyprexa anti-psychotic medicine.

Included in Glaxo's settlement is a Department of Justice investigation into the development and marketing of its diabetes drug Avandia. Other disputes being settled include a marketing investigation in Colorado and Massachusetts, covering nine drugs, and an investigation into rebates offered under the US Medicaid programme.

Andrew Witty, Glaxo's chief executive, described the settlement as "a significant step toward resolving difficult, long-standing matters which do not reflect the company that we are today.

"We have fundamentally changed our procedures for compliance, marketing and selling in the US to ensure that we operate with high standards of integrity and that we conduct our business openly and transparently," he added. Changes include eliminating the link between individual sales goals and bonuses for US representatives.

Analysts said that the settlement removed significant uncertainty around legal issues.

Alex's new book The Best of Alex 2011 **is available now. Order your copy at www.alexcartoon.com or by telephoning 020 8374 1225**